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DART
INDUSTRIES INC.
(FORMERLY REXALL)

ANNUAL REPORT
1968

REXALL DRUG AND CHEMICAL COMPANY

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Annual Meeting: The Annual Meeting of Stockholders of Rexall Drug and Chemical Company will be held at 9 a.m. on Tuesday, April 22, 1969, at corporate headquarters, 8480 Beverly Blvd., Los Angeles, California 90054.

year in brief

	1968	1967†
OPERATIONS		
Net sales	$642,227,000	$607,807,000
Earnings before extraordinary items	36,754,000	35,405,000
Extraordinary items	294,000	
Net earnings	37,048,000	35,405,000
Per share of Common Stock		
Earnings before extraordinary items	1.91	1.84*
Extraordinary items	.02	
Net earnings	1.93	1.84*
NUMBER OF SHARES OF COMMON STOCK		
Average during the year	16,122,900	15,986,400*
Outstanding at year end	16,228,800	16,050,700*
NUMBER OF SHARES OF PREFERRED STOCK		
Outstanding at year end	2,976,800	2,957,400
AT YEAR END		
Current assets	$278,017,000	$253,321,000
Current liabilities	104,893,000	100,096,000
Working capital	173,124,000	153,225,000
Long term debt	82,375,000	84,702,000
Stockholders' equity	304,833,000	276,597,000
DIVIDENDS PER SHARE		
Common Stock		
Cash	$ .30	$ .30
Stock	3%	3%
Preferred Stock	$2.00	$2.00

†Restated—See note to financial statements.
*Adjusted for 3% Common Stock dividend issued in March 1968.

to the stockholders:

Earnings and Sales. Sales were $642 million, 5.6% above 1967 sales; net earnings were $37 million, up 4.6% and equal to $1.93 per Common share compared with $1.84 for 1967. Earnings for 1968 included 2 cents per share attributable to extraordinary items. All 1967 amounts have been restated for acquisitions accounted for on a pooling of interests basis and the 3% stock dividend paid in 1968. Net earnings for 1968 were reduced the equivalent of 17¢ per share of Common Stock by the Federal income tax surcharge.

The improvement in earnings was broadly based. The Direct Selling and Consumer Products Groups accounted for 56% of profits before taxes, up 17% over 1967, and for 33% of sales. Other operations, which included Glass Containers, Plastics, Chemical and Ethical and Proprietary Drug Groups, accounted for 44% of profits and 67% of sales. Earnings for these groups were 13% ahead of 1967.

International Operations. International operations accounted for 16% of 1968 sales and 25% of 1968 profits. Sales in international markets improved 5% over the prior year, while profits increased 29%. Growth in international markets was not affected by the Executive Order of the President of the United States which restricts outflow of capital funds for foreign investment purposes.

Dividends. During 1968 the regular cash dividends on Common Stock totaled 30¢ per share. Semi-annual dividends totaling $2.00 on the Preferred Stock were also paid. In addition, a 3% Common Stock dividend was paid in March, 1968 and another one was paid in 1969.

Financial Condition. The Company's balance sheet is the strongest in thirty years. Stockholders' Equity at the end of the year aggregated $305 million, up from $277 million at the end of the prior year. Long term debt was $82 million, equal to 27% of Stockholders' Equity. Our growth has been based primarily on equity — not debt.

Rexall's cash position at year end including short term securities totaled $55 million. These funds, combined with proceeds from the 1969 sale of the retail and franchise divisions and capital available to the Company under its long term borrowing agreements, place Rexall in an excellent position to take advantage of new opportunities for growth. It is anticipated that internally generated funds will be adequate to cover the Company's regular operating requirements in the immediate future.

Return on Stockholders' Equity. The rate of return on average Stockholders' Equity for 1968 was 12.7% compared with 13.4% for 1967. The redeployment of cash resources should provide for consistent improvement in the return on equity.

Advancing the Corporate Plan. Last year at this time we wrote that the corporate plan for growth called for analysis and cultivation of present businesses and the entry into new businesses with above average potential. We stated that we would divest ourselves of those operations which did not fit our corporate plan and that we would direct the capital so released into areas where the possibilities of both return and future growth were above average.

In line with this plan, a number of positive steps have been taken.

1. Plant Expansion. Facilities of our fast growing companies were expanded and modernized and new commitments for additional expansions were made. Capital expenditures are budgeted at a record $64 million in 1969.

2. Technical Development Program Progress. Consistent with the corporate plan, support was increased for research and development efforts. In the Corporate Group, a Technical Development Department was organized to explore new product opportunities and to coordinate the internal interchange of technology.

An important outgrowth of this program was the development of a dual-dispensing aerosol system which was announced last July. This technical achievement makes it possible to package many new products in aerosol containers, including hair dyes, hot chest rubs, hot cleansing creams, and a much improved hot shave foam. These products will become part of the new Vanda Beauty Counselor line of direct selling cosmetics. In addition, arrangements have been made with two major companies for the use of our dual-dispensing technology in their product lines. This could be an important additional source of income.

3. New Businesses Entered. In the past year we entered new businesses which added to 1968 sales nearly $100 million, almost all of which related to consumer markets. We are continuing to explore other compatible situations.

The largest addition in 1968 was The West Bend Company, which provided entry into two new markets, metal-porcelain housewares and portable appliances. The West Bend Company is a leader in these fields, with a reputation for excellence in product quality and innovation.

The merger with Beauty Counselors was completed in May, 1968, and strengthened our entry into the direct selling cosmetics field. The home furnishings market in Canada was entered through the purchase of John Walter & Sons, Ltd., now operating as Syroco, Canada. Earlier this month Babcock-Phillips, a manufacturer of hassocks, pillows and cushions was merged into the Home Furnishings Division.

Market Compilation and Research Bureau, acquired in April, 1968, gives us an entry into the growth area of information retrieval. Through computer techniques MCRB is producing highly selective mailing lists and, as one of the nation's largest mailing list compilers, is distributing personalized letters on behalf of national advertisers, pinpointed to their markets.

Aztec and PureChem, two specialty chemical producers, have been added to the Chemical Group, further diversifying that operation.

The new company additions met or surpassed expectations in 1968.

4. Sale of Retail and Franchise Drug Divisions. Retail and franchise drug operations are under contract for sale to Commonwealth United Corporation. The Company will have received at the closing on June 30, 1969 in excess of $30,000,000 in cash and 1,100,000 shares of Commonwealth United convertible preferred stock. The details of this transaction were sent to you in a letter on March 3.

The operations involved include the Liggett and Drug King chains of drug stores and the Rexall Drug Company, which supplies proprietary drugs and other products to the chains and franchised Rexall drug stores in the U. S., Canada and abroad. These operations accounted for 21% of our 1968 volume. However, as we pointed out in our recent letter, we believe that the sale of these divisions will not limit the earnings gain previously expected for 1969.

I am sure you recognize that the decision to enter into this transaction was a very difficult one both for the Corporation and for me, personally, since we have been so closely involved with Rexall druggists for so many years.

But Rexall today is a very different company compared with what it was as recently as a decade ago. The retail and franchise drug operations are almost the last remaining segments of the old Rexall. This transaction, therefore, represents a major policy determination in the restructuring of the Corporation. The Company's management and Board of Directors are in unanimous agreement that this sale is in the best interests of both Rexall Drug and Chemical stockholders and of our long-time friends and partners, the Rexall Druggists.

5. Imco Container Company Sale Completed. In July, 1968, in accordance with a Federal Trade Commission directive, Imco Container Company, a plastic bottle company jointly owned with El Paso Products Company, was sold to Ethyl Corporation. $12,500,000 was received as the Corporation's share for Imco's operations in the United States and Canada. The Corporation continues to own and operate plants in Australia and in four European locations producing plastic bottles for overseas consumption.

Justin Dart, *Chairman and President*

The gain realized on the sale of Imco is included as an extraordinary item in the Statement of Earnings, and is substantially offset by a provision for reorganization losses related to our future planning.

6. New Associate for Bonus Gifts Program. In March, 1969, a joint enterprise was organized with The Glendinning Companies, Westport, Connecticut, for the further development and management of the Bonus Gifts promotion plan. Glendinning is among the nation's leading marketing and promotion firms and will manage the program which was created by Rexall and has been market tested for the past year in the Southeastern United States.

In the program, packaged goods of participating manufacturers carry Bonus Gifts coupons. Consumers save the coupons and exchange them through the company either for certificates good for cash or for any of a large variety of different trading stamps.

The objective of the new joint enterprise is to build even further upon the favorable consumer impact, retail trade acceptance and manufacturer results of the program.

The Corporation Today. *The Corporation is consumer and marketing oriented.* The businesses in which we participate are related to consumer needs and have demonstrated above average growth here and abroad. These businesses also are related to one another and to the total through certain common bonds and in varying degrees. Chief among these are markets, technology and raw materials. Equally important, all our businesses are conducted under a philosophy which provides for the autonomy of operating management and for that management's concentration on manufacturing, product development and marketing. Operating management is not burdened with financing and other corporate staff activities and thus, can concentrate on being most effective in the areas of its primary responsibilities — the sound growth and profitability of the divisions that comprise the Corporation. The chief executives of the groups who are the focal point of our operating management team are pictured in connection with the operations they direct on the following pages, and with the listing of companies they direct on pages 40 and 41.

Direct Selling. Rexall operating groups each have excellent prospects for growth. The Direct Selling Group is one of the fastest growing and warrants special comment. This business is characterized by consistent growth and good profit margins and return on investment. Accordingly, it is a natural area for expansion in line with the Corporation's resolve to emphasize both its consumer orientation and those product and market areas with above average market potential.

Engaged in direct selling are:

Tupperware Home Parties — whose plastic food serving and storage containers are sold through the home party plan;

Vanda Beauty Counselor — whose cosmetics are sold door-to-door;

The West Bend Company—whose cookware (under other names than "West Bend") is sold through a variety of direct-to-user plans.

Both Tupperware and West Bend are household names known to millions of homemakers for quality housewares. Vanda Beauty Counselor joins the other two well known names for the purpose of penetrating the growing direct-to-home market in cosmetics. Its goal is to create an exciting and fast growing company in the door-to-door cosmetics field.

During 1968 good progress was made in the pursuit of this goal. By the end of 1969 we will have established the organization and product line to make Vanda Beauty Counselor an important factor in a fast-growing market.

Start-up and development costs will keep Vanda Beauty Counselor from being profitable until 1970 and we believe it will be 1971 before a significant profit contribution will be made from its operations. We will continue to keep you informed on progress of this very important division of the Corporation.

In the meantime, we confidently anticipate the continued growth at both Tupperware and West Bend.

New Executive Appointments. Following the merger with The West Bend Company in October, 1968, R. D. Ziegler, Executive Vice President of that company, was elected to the Board of Directors and made a Vice President of the Corporation and President and Chief Executive Officer of the Consumer Products Group.

At its March, 1969, Board meeting, Russell K. Bolton was elected to the Board of Directors and Hamer F. Wilson and George J. Daly were elected Executive Vice Presidents. Mr. Wilson, who came to Rexall in 1958 when Tupperware was acquired, will continue to be responsible for the Direct Selling Group operation. Mr. Daly, who joined Rexall in 1961, directs Corporate Group activities, including financial, administrative and all management services. Mr. Bolton, Vice President and General Counsel, joined the Corporation in 1961.

Corporate Name Change. In view of the pending closing of the sale of the Rexall retail and franchise drug operations, a Corporate name change is necessary. The Board of Directors will recommend to the stockholders a new Corporate name. Complete information on this matter will be included in the Proxy which will be sent to stockholders in advance of the Annual Meeting.

Outlook. Assuming no major dislocations in economic activity, it is our best judgment that 1969 will be a substantially better year for the Company than 1968.

Justin Dart

Justin Dart
March 12, 1969 Chairman and President

Hamer F. Wilson, *Chairman and Chief Executive Officer, Direct Selling Group; Executive Vice President of the Corporation. Mr. Wilson directs operations described on pages 6 to 15.*

marketing consumer products

direct selling

TUPPERWARE

The Tupperware Home Party combines shopping and sociability in the pleasantest way. More than a million such parties were held in 1968.

A Decade with Rexall. Tupperware Home Parties completed its 10th year as a Rexall company in 1968 and continued its record of uninterrupted growth. *Tupperware* is sold in 40 free world countries and is manufactured in ten.

World Leadership in Plastic Housewares Containers. *Tupperware* continued in 1968 as the No. 1 brand name in plastic housewares. Its world-wide reputation for quality is based on its program of 100% product inspection and its unique air-tight seal. The company's achievements in 1968, as in prior years, were the result of the coordinated effort of all its people. Research and product development efforts in 1968 resulted in the introduction of many new and improved products which are proprietary to the company and for which patents are being obtained. These products contributed importantly to growth of the company during the year and also provide a good base for additional business which is anticipated for 1969.

The company's products are backed by effective sales promotions and advertising. In 1968, more extensive use of television was made in the advertising program. Initial results of the television programming have been very encouraging. Consumer research has shown greater product awareness among potential customers. This, too, should have a beneficial effect on future sales.

Outstanding Sales Force. *Tupperware* is available on the popular Home Party Plan. It is being sold by a growing number of capable and high-quality dealers—each one self-employed. This sales group is characterized by a great team spirit which is reflected in a low dealer turnover rate—one substantially lower, and therefore better, than that experienced by most other direct selling companies.

1968—Continued Growth. The plants opened in 1967 in Greece and Spain were fully operational in 1968. Facilities in Spain have already been expanded.

Total sales and earnings from operations overseas in 1968 were ahead of the prior year. At the same time, the sales and earnings growth rate from the United States and Canadian operations ran well ahead of that of the overall economies of the two countries. The company continues to accrue the benefits from an outstanding and continuing recruitment campaign, associated with strong field management and distributorship development programs. The experience gained by the company's field sales group will make a significant contribution to future growth.

New U. S. Plant Now Operating. The company's new 330,000 square-foot plant in Halls, Tennessee, is now operational. It, and the company's main plant in Rhode Island, are the sources of supply for all *Tupperware* sold in the United States. To provide the capacity for future growth, the Board of Directors in January, 1969, approved an expansion of the Halls plant which will about double its capacity. The new addition is expected to be operational in 1970.

1

2

1,4,7. New products contribute importantly to increasing sales. Among those introduced in 1968 were Egg Tray, Condimates and Parfait Set.

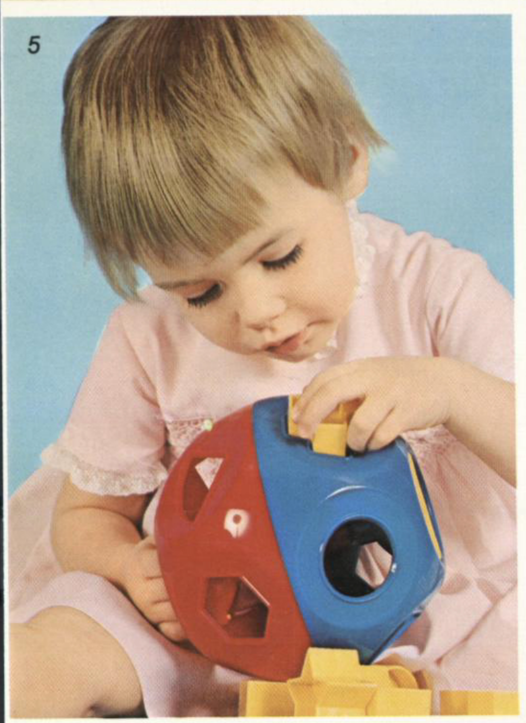
2,3,6. Canisters for every food storage and utility need. A variety of serving and storage containers and kitchen aids are available from Tupperware.

5. One of the newer Tupperware Toys.

3

4

5



6

7

BEAUTY
Vanda
COUNSELOR

marketing consumer products

direct selling cosmetics

VANDA BEAUTY COUNSELOR

Building the Direct Selling Cosmetics Organization. Vanda Beauty Counselor merchandises an exclusive line of cosmetics directly to the consumer. In this new division Rexall has combined its research and development resources with the direct-selling and management know-how of *Tupperware* and Beauty Counselor.

Major progress was made in 1968 in the penetration of the direct selling cosmetics market. At year end there were over 45,000 consultants actively engaged in selling the company's different cosmetics lines under the Vanda, Beauty Counselor and Cort-Romney names. This number will be increased substantially in the years ahead and an intensified recruitment program is under way. Distributors are being appointed at an accelerated rate. An increase in promotional costs planned for 1969 reflects the increasing pace of activity in this important area.

During 1968 the three segments of the direct selling cosmetics group conducted business under their respective names, Vanda, Beauty Counselor and Cort-Romney, while the work of consolidation was begun. This involved development of a simplified distribution system and the coordination of manufacturing activities. The objective was to produce and market a unified product line and the goal was to accomplish this by the end of 1969. The progress that has been made to date is a tribute to the outstanding management-production-distribution-counselor team that has been brought together to attain both the objective and the goal.

The Vanda Beauty Counselor Line. The direct selling cosmetics business will be conducted under the name Vanda Beauty Counselor. Products are being carefully selected to cover virtually the entire range of consumer needs in cosmetics and toiletries, providing the necessary breadth of appeal to all segments of the market (see pages 12-15). The Vanda Beauty Counselor line of approximately 250 products is being produced from a broad base of existing and newly developed formulas. Emphasis is being placed on those products with proven customer appeal and with demonstrably unique features, including convenience for use and ease of application. Already introduced have been such well-received products as foam-dispensing makeup and effervescent action beauty products. These and other developments have evolved from the company's extensive cosmetic research facility. Plans are being made for new research and development laboratories which will further enhance Vanda Beauty Counselor's capacity for product improvement and innovation.

An International Operation. The company is now international in scope with operations already established in England, Italy, France, Australia and Canada. These operations will serve as a base from which to expand to other significant free-world markets. Typical of the overseas products are those from France shown on page 15.

A counselor from Vanda Beauty Counselor shares her beauty knowledge.

1

Captiva
Captiva
Captiva
Vanda

3

Vanda BEAUTY COUNSELOR

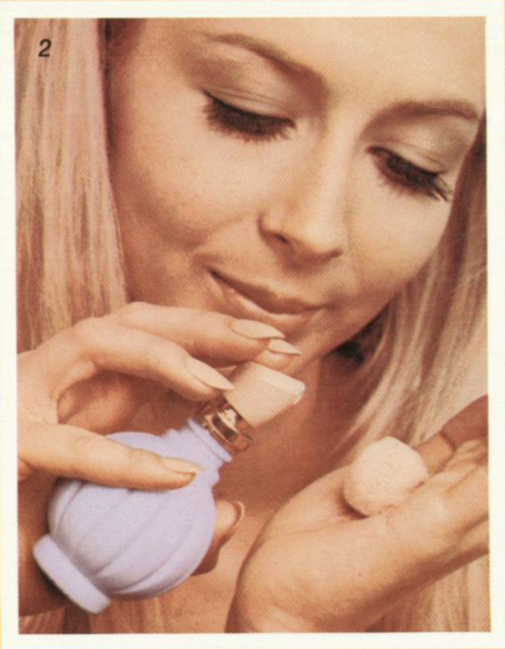
4

Vanda BEAUTY COUNSELOR
CLEANSING CREAM
NET WT. 6 OZ.
Vanda BEAUTY COUNSELOR
CLEANSING LOTION
6 FL.OZ.

1 - 6. Representative selections from Vanda Beauty Counselor's extensive women's fragrance, skin care and make-up lines.

The new signature to appear on company products is reproduced below:

Vanda BEAUTY COUNSELOR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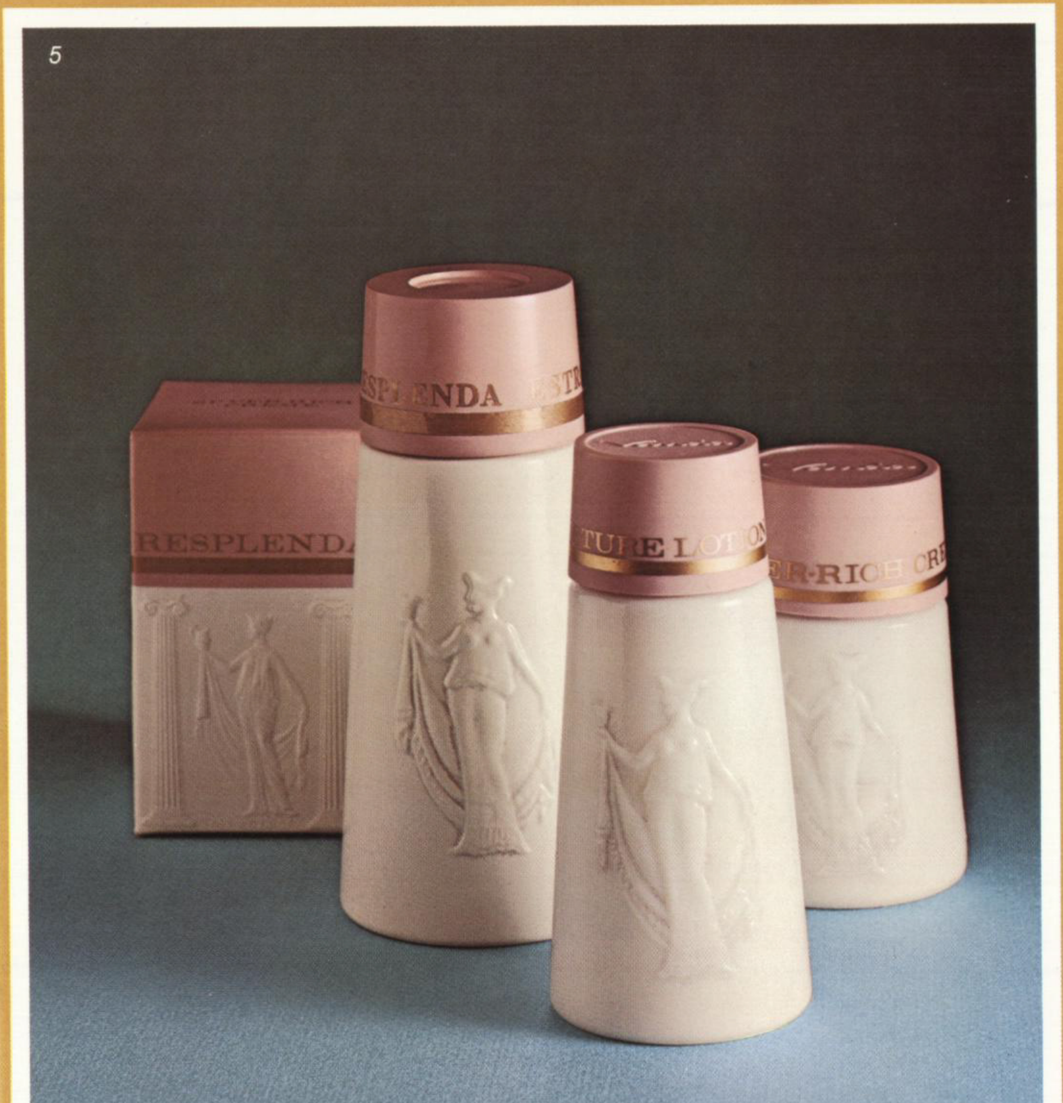
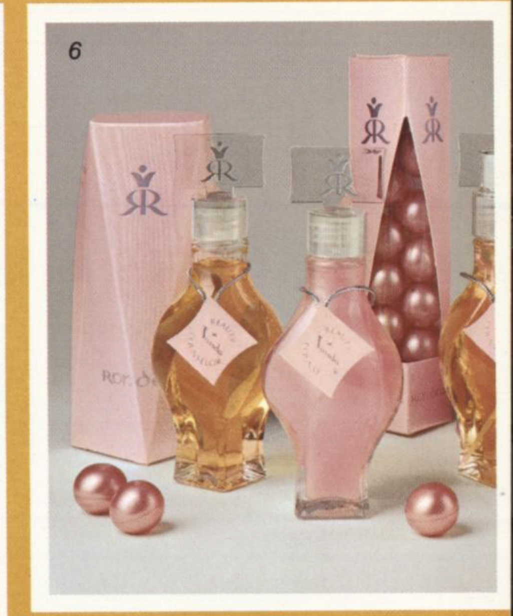

5

RESPLENDA
RESPLENDA
TURE LOTION
ER-RICH CRE


6

1

Windward Passage
Lime
Windward Passage

2

Vanda
BEAUTY COUNSELOR
MEDICATED CLEANSING LOTION
4 FL OZ
Vanda
BEAUTY COUNSELOR
MEDICATED PORE LOTION
4 FL OZ
NEO DERM SOAP

3

Vanda
BEAUTY COUNSELOR
SOFT SOFT
BATH OIL
5 FL OZ
SOFT SOFT
ever✻vescent
BATH FOAM
NET WT. 6 OZ.
Vanda
BEAUTY COUNSELOR
Vanda
BEAUTY COUNSELOR
SOFT SOFT
BATH SATIN
5 FL. OZ.

4

V de Vanda
V de Vanda

5

BLUSH-ON
TINTED FOUNDATION CREAM
normal and dry skin
Vanda

6

V de Vanda
Parfum Voile
de Vanda
Parfum Voile
V de Vanda
Talc

1. Vanda Beauty Counselor also has introduced several men's fragrance and toiletry lines, typified by soap and after shave — cologne shown.

2. To meet varying needs of consumers, Vanda Beauty Counselor developed these and other specialized skin care items.

3. Vanda Beauty Counselor also features bath products (as shown) and a complete selection of toiletry items for all the family, including children.

4-6. Vanda Beauty Counselor in France has a complete range of cosmetics and toiletries. Shown here are fragrance and make-up items representative of both the French line and its packaging.

THE WEST BEND COMPANY

HOME FURNISHINGS DIVISION

R. D. Ziegler, *President and Chief Executive Officer, Consumer Products Group.*

Consumer Products Group. With the merger of The West Bend Company last October, Rexall entered a new field with substantial growth potential—housewares and portable electric appliances.

The West Bend Company together with the Home Furnishings Division now form the Consumer Products Group. This Group serves as a new platform for growth.

The West Bend Company. Factors which influenced growth of The West Bend Company in 1968 are expected to continue as a force for further improvement in 1969. They include the upgrading of housewares through design and new products, acceptance of stylized housewares by the gift market, new home construction, population growth and increasing family income.

West Bend's primary products are portable appliances, pantry ware, gift ware, bake ware, humidifiers and cooking utensils. The company manufactures more than 1,000 different housewares items.

New and improved products and aggressive merchandising contributed to West Bend's success in 1968. The company continued to maintain a dominant position in automatic electric coffee makers and during the year rose to a position of leadership in humidifier sales. Its Country Inn porcelain-teflon cooking utensils, first introduced in 1967, became the acknowledged leader in their field during 1968. West Bend was the first company to add colorful coatings to mass produced, heavily merchandised aluminum utensils. Production capacity for these products was increased during the year, but demand still exceeded supply.

From West Bend Country . . . where craftsmen still care.

For this reason and to improve operating efficiency further, fifty acres of land were purchased near the company's West Bend, Wisconsin headquarters and main plant for construction of a 250,000 square foot manufacturing and distribution center scheduled for completion in mid-1969. In addition, site preparation was completed during the year for expansion of the Sheridan, Arkansas plant where some of the specialty lines of cookware are produced. At Anoka, Minnesota, where the company produces Thermo-Serv plastic products another expansion is planned during 1969. These new facilities will increase production capacity of the total West Bend Company by more than 25%.

In 1968, West Bend purchased Sovereign Housewares Limited, Toronto, Canada, a manufacturer of stainless steel cooking utensils. This operation was consolidated with West Bend's Barrie, Ontario plant. West Bend also acquired Armor Bronze & Silver Co., Inc., Taunton, Mass., a manufacturer of quality giftware sold under the trade name of Coppercraft Guild.

Home Furnishings Division. Syroco, a leading manufacturer of home furnishings and accessories, entered two new product areas in 1968 and expanded its operations.

Introduction of a line of decorative tables reflects the expansion of the company's marketing into accent furniture, complementing its line of wall accessories. The furniture market offers considerable growth potential for the company's entire line. Acceptance for the tables by retailers and consumers alike was excellent and production will be expanded.

In 1968, Syroco entered the hobby and craft market with the introduction of *Syroco Craft,* a three dimensional, do-it-yourself, wall accessory kit which includes paints, antique colors, brushes and suggested color guides. This product line opens up a totally new area of distribution, outlets and sales techniques, as did the new decorative tables.

Syroco's sales potential in the Canadian market was expanded last year with the purchase of John Walter & Sons, Ltd., Kitchener, Ontario, a manufacturer of decorative wall accessories and furniture carvings, now operating as Syroco, Canada.

Aiming at the youth market, Syroco developed an extensive line of wall accessories featuring new decorator colors.

To provide customers with an even greater selection of fashionable colors and decorator treatments, Syroco is introducing the Saxony Collection during 1969. This will be the first of a planned series of new wall accessories featuring antique gold and distressed black walnut finishes.

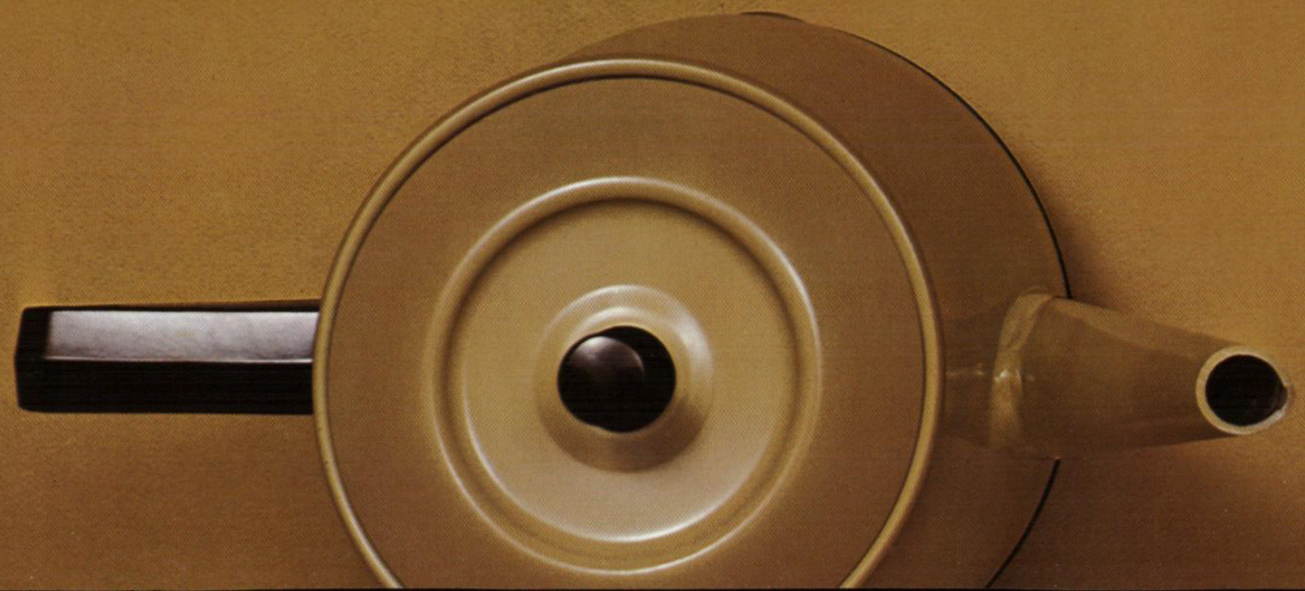
Babcock-Phillips. During March, 1969 Babcock-Phillips, a manufacturer of hassocks, cushions and pillows became a part of the Home Furnishings Division.

1

2

IOWA
MICHIGAN

3



4

5

6

1, 2, 3. Consumer acceptance for new West Bend electric appliances and fashion-color cookware was excellent. Capacity is being added to meet anticipated demand.
4. Electric humidifier introduced by West Bend in 1968 is now one of industry's leaders in sales.
5. Syroco introduced a line of tables in 1968 which were well received.
6. Wall decorations of contemporary materials continued as base of Syroco's growing business.

1

2

one pair
BROWN MILLED
SURGEONS' GLOVES
Kolormark for size
SR 830
7½
SEAMLESS
STERILE
one pair
BROWN MILLED
SURGEONS' GLOVES
Kolormark for size
SR 830
7½
SEAMLESS

3

SHAKE WELL
NORTHRIDGE, CALIF.
REMOVE THIS CAP BEFORE USE
REMOVE THIS CAP BEFORE USE

AMPUL
LE SOLUTION
RFLEX®
RINE CITRATE
RIKER
RIKER

4

Jacob W. Stutzman, M.D., *Chairman and Chief Executive Officer, Ethical Pharmaceutical and Hospital Supplies Group.*

marketing ethical pharmaceuticals and hospital supplies

RIKER LABORATORIES

SEAMLESS RUBBER COMPANY

Riker Laboratories, an international ethical pharmaceutical company, showed continued good improvement in world-wide sales and earnings in 1968 with sales about equally divided between the United States and overseas operations. Results indicate a continuing improvement in acceptance of Riker's products by physicians throughout the world.

Operations in the United States. Sales for Riker-United States reached a new high in 1968, demonstrating the results of a creative and effective marketing operation. *Hiprex,* a new product which was launched in 1967, made a significant penetration of the urinary anti-bacterial market in 1968. Improvement in all areas of the operation is projected for 1969 with continuing emphasis being placed on the development of improved marketing capabilities.

Operations Outside the United States. A major impetus to overseas growth came from the addition of Société Jean Roy-Freyssinge, a French pharmaceutical manufacturer. As a result of this acquisition, all of Riker's manufacturing operations in France have been consolidated in Pithiviers, about 50 miles south of Paris. Operations in France were not seriously affected by the disturbances of the past summer and the future for Riker in that country is promising.

The results of United Kingdom operations in 1968 were most encouraging in spite of devaluation. With the completion of new manufacturing facilities in the United Kingdom, the major new construction program overseas is now behind us.

Hiprex was introduced into Mexico, Canada and South Africa following its introduction in the United States. Plans for 1969 encompass its movement into additional countries.

Research and Development. Riker's total spending to discover and perfect new pharmaceutical products will be increased significantly in 1969 to support research teams in Australia, France, the United Kingdom and the United States and clinical testing throughout the world. Clinical testing of several potential new products is being expanded, both here and abroad, to provide the needed data to submit to appropriate governmental agencies. The company's multi-national approach to research is planned and coordinated to adapt to the wide differences between countries in governmental requirements and medical practice.

Seamless Rubber Company manufactures hospital supplies, athletic equipment and industrial rubber products. Sales increased over the prior year and were accompanied by good improvement in profitability. The program to modernize the company's plant is well along. The first new automated production line for the manufacture of disposable surgeons' gloves is now operating and performing according to plan. Seamless is participating in the burgeoning hospital and recreation markets. In this connection, the company is increasing the size of its field sales force.

1, 4. Research and the search for new ethical pharmaceuticals is vital to Riker's continued growth.
2. Seamless Rubber's disposable surgeons' gloves are one of a growing number of hospital supply products.
3. Medihaler, the pioneer metered aerosol for inhalation therapy, continues to contribute importantly to Riker progress.

REXALL CHEMICAL COMPANY

Ralph M. Knight, *President and Chief Executive Officer, Chemical Group.*

The major portion of the Corporation's investment in the petrochemical field is in the production of plastic raw materials which are used in the manufacture of plastic products. The production and marketing of ethylene, propylene, polyethylene and polypropylene is part of a joint venture with El Paso Products Company, a subsidiary of El Paso Natural Gas Company. Rexall in recent years has expanded and diversified its position in petrochemicals with the production of polystyrene and acrylonitrile-butadiene-styrene (ABS) and the addition of specialty chemicals.

Research yields new production processes. Scientists at the Chemical Group's Paul Kayser Research Center in Paramus, New Jersey, have provided plastic raw materials with recognized outstanding properties. Research activities have yielded processes which currently produce 500 million pounds per year of these materials for use and sale. These activities also constitute a valuable resource to other Rexall companies and have provided a source of income from licenses. Among the licensees, Ube in Japan began production of polypropylene during 1968. Enjay Chemical Company in the United States and Nippon Petrochemical Company in Japan successfully started up their polyethylene plants during the year.

Portion of Odessa, Texas, chemical complex for manufacture of plastic raw materials.

Joint Venture. During 1968, polyethylene facilities which at capacity produce over 300 million pounds annually, were operated at an average rate of 85%. Prices which eroded sharply during the first half of the year were improved only slightly starting the latter months of the year. For the year, therefore, the joint venture in polyethylene experienced a decline from the profit levels of 1967. However, one offset was the improved performance in polypropylene, production of which was increased to 50 million pounds annually. Polypropylene sales were strong and the backlog of unfilled orders at year end indicates good operations for 1969 as well. To capitalize on the improving polypropylene outlook, plans have been made to increase capacity 50% by year end 1969. Assuming good demand for polyethylene in 1969, the outlook for improvement in the joint venture is very promising.

Styrenic Polymers. Rexall Chemical's 100%-owned styrenic polymers' operations recovered substantially from the problems of 1967. A turn-around occurred during 1968 in polystyrene operations through increased sales volume and more efficient operations. New capacity, amounting to 40 million pounds annually for general purpose polystyrene, was successfully started up. In addition, an expandable bead polystyrene plant came on stream. During the year, a full range of marketable, competitive ABS products was produced. However, they were not available early enough in the year to produce the required level of sales to reach the break-even point in the 4th quarter 1968 as had been expected. A continuation of strong demand should result in an improvement in this area in 1969.

Consolidated Thermoplastics. Profitability at the Film Division, jointly owned with El Paso Products Company, was down because of industry overcapacity. Recently, demand has shown some improvement.

Specialty Chemicals. The company has diversified into specialty chemicals because they represent growing markets and an above average return on investment.

Wilson Products, whose materials are used principally to color plastics, continued to show improved results. Research efforts were concentrated on colorants for new markets. Selective situations in paper, ink and coatings are being explored. Further contributions to results are expected from overseas operations.

Fiberfil manufactures glass fiber reinforced thermoplastics. The fibers add strength to the plastic itself. Accordingly, Fiberfil products have found good acceptance for automotive parts such as instrument panels, consoles and bucket seats; cameras; portable radio and phonograph housings.

Further diversification is accomplished through **Aztec Chemicals,** a manufacturer of organic peroxides used as catalysts in production of plastic raw materials and **PureChem,** a manufacturer of titanium trichloride, used as a catalyst in polypropylene production.

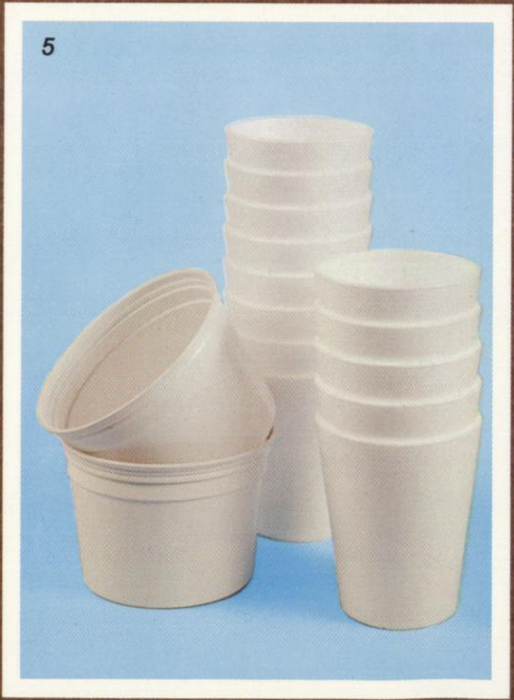
1

2

3

4

KENLUBE
MAXI BLONDE
TUBS
TILE
BOAT
RUTLAND FIRE CLAY CO.
RUTLAND, VT.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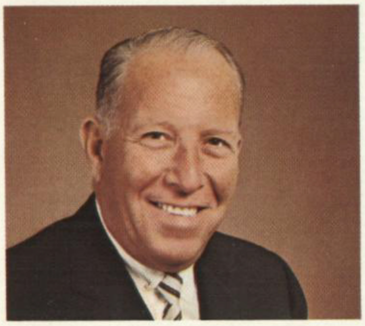

Franklin B. Pollock, *Vice Chairman of the Board; Chairman and Chief Executive Officer, Glass Containers Group.*

marketing convenience packaging

THATCHER GLASS

PLASTICS GROUP, Packaging Division

Packaging has been called the prime mover of consumer products. It plays a key role in building product acceptance and sales and in reducing costs of distribution. Rexall emphasizes those forms of packaging where its engineering and production skills can provide unique advantages to its customers, thus allowing for a better-than-average return to the company.

Thatcher Glass. The company has been operating at capacity to meet customer requirements for glass containers since the 51-day industry-wide strike ended on March 23, 1968.

"Triple Gobbing" Results in Increased Efficiencies. The combined achievements of Thatcher research, engineering and manufacturing brought into commercial production during 1968 a new manufacturing technique with significant implications for cost reduction. It involved "triple gobbing", or the production of three bottles at a time. Thatcher had earlier pioneered "double gobbing". This new development increases output of a production line by 30-35%. "Triple gobbing" lines have been installed or programmed for most of the company's six manufacturing plants.

1. Three gobs of molten glass . . .
2. Are simultaneously formed into three bottles; a new technical achievement at Thatcher Glass.
3. Finished bottles prior to packaging and shipment.
4. Plastic tubes or metal . . . Rexall companies make them for a variety of products.
5. New thin-walled foam cups from Thompson (right) and Rexcel food containers.

Expansion Program Initiated. During the year, an $18 million expansion and modernization program was announced. Capacity will be increased by 20% by year-end 1969, principally for production of one-way (non-returnable) bottles. One major addition will be a new furnace and associated production lines which will double the capacity at the Wharton, New Jersey plant. Additional facilities at another location are programmed for late 1969 or early 1970.

Improved Outlook. In recent years, non-returnable beverage bottles have been recording the highest growth rate among the glass container product groups. Research has kept Thatcher a leader in the development and production of one-way beverage containers. The company is thus in an excellent position to capitalize on this substantial growth market.

The combination of new facilities and production equipment and the growth of the one-way beverage bottles provides a strong basis for the expectation of improved results at Thatcher.

Packaging Division, Plastics Group. Other Rexall companies engaged in producing packaging products are combined in the Plastics Group. They share a common interest in both marketing and technology.

Tubes, Seals and Closures. A broad selection of consumer products is packaged with tubes, seals and closures made by **Thatcher Plastic Packaging,** Muscatine, Iowa and **White Metal Manufacturing Company,** Hawthorne, New Jersey.

In December, 1968, Thatcher Export was awarded the President's "E" award for excellence in exporting by the United States Department of Commerce. Export sales in the Western Hemisphere have increased through the development of a network of sales representatives throughout the hemisphere.

Styrene cups and containers. Thompson Industries, with nine strategically located U.S. plants, is a major manufacturer of disposable plastic drinking cups, carry-out food containers and lids. **Rexcel** produces a line of plastic containers for the dairy and food industries. More efficient operations yielded much improved results at both companies in 1968 over the prior year.

Improvements made to the surface finish of cups, containers and lids allow greatly improved custom printing and decoration. The new Thompson drinking cup, introduced in May, was a major step forward in disposable cup design. Its reduced wall thickness permits compact stacking of cups in 25% less storage space than other cups of similar size. Its use affords important savings in freight costs as well. This achievement evolved from a joint effort with the scientists of the Chemical Group's Research Center.

1

THE BANK OF CALIFORNIA

Wilson Art
D-5A
Honey

2

3

Donald H. Brewer, *President and Chief Executive Officer, Plastics Group. Mr. Brewer directs operations described in part on page 25 and on pages 26 to 28.*

marketing building products

Architectural Products Division

RALPH WILSON PLASTICS

PANEL PRODUCTS

FABROVIN

Architectural Products: a new platform for growth. Ralph Wilson Plastics, a manufacturer of decorative laminates (recognized most readily in the form of stain-and mar-proof *Wilson-Art* counter tops, cabinets and partitions) provides the corporation with a platform for growth in the building products market. The Rexall Architectural Products Division has been organized to spearhead an expanded building products marketing program with Ralph Wilson products as its base.

Panel Products, organized late in 1967 to produce plastic panels for the construction and furniture industry, and Fabrovin, a maker of vinyl wall coverings, broadened the line of surfacing products for homes, offices and other buildings. Architects can now specify Rexall's Architectural Products Division as a one-stop source for a design-coordinated, all-plastic surfaced room including walls, doors and furnishings.

Increased sales and improved production facilities highlighted the activities of the Architectural Products Division in 1968. Strong market demand in 1968 for high pressure decorative laminates was reflected in continued improvement in the results of Ralph Wilson Plastics. Fabrovin extended the area of marketing its decorative vinyl wall coverings. Panel Products completed its first year of operations with satisfactory sales.

1. Ease of maintenance is one advantage of Wilson-Art door facings used in new office building.
2. Fabrovin wall covering used by hotel in room refurbishing program.
3. Specialty store uses Wilson-Art on tea room table top and fixtures.

Ralph Wilson Plastics, headquartered in Temple, Texas, is increasing its share of the growing market for high pressure decorative laminates.

Because it has both factory warehouses strategically located to serve customers and a nation-wide family of distributors, the company is a preferred source by many users of decorative laminates. To meet increased demand, the Ralph Wilson plant will be expanded 30% in 1969.

Use of *Wilson-Art* as a facing for doors in high-rise office and apartment buildings, hospitals, schools and other commercial structures has risen appreciably due to lowered production costs by door manufacturers and to the increasing difficulty of obtaining door facings of traditional domestic woods such as walnut and birch. Wall paneling installations in *Wilson-Art* are continuing to grow for the same reasons.

Fabrovin Wall Coverings. To meet the present and future growth of Fabrovin, located in Paterson, N. J., additional machinery and facilities were required and a completely new plant will be in full production in the Spring of 1969. It will have a capacity five times that of the present manufacturing facility.

The vinyl wall covering industry has been growing at an annual rate of about 9%. The economical and easy maintenance of this material combined with interesting colors, patterns and textures has a strong appeal to the architect and interior designer of hospitals, schools, office buildings and hotels where hard usage is encountered.

Equipment in the new plant will permit versatility in product manufacture, making it possible to enter new areas of the wall coverings market.

Panel Products Company, Lithonia, Ga., manufactures a panel consisting of vinyl film on plywood or particle board, and introduced *Vy-Panel* to the market early in 1968. These panels in beautiful woodgrains are used in new commercial buildings, the mobile home field, furniture manufacture and are distributed through retail building material outlets. Additional colors and patterns will be added to permit deeper penetration into existing outlets and the entry into other markets.

Architectural Products Division staff works closely with each of the individual companies in coordination of colors and designs. Frequently, two or even three of the products may be included in the same project, making it possible for the architect or designer to coordinate colors with a minimum of effort.

Marketing coverage for the family of products was expanded during the year with the establishment of a group of architectural representatives in nearly all major marketing areas from coast to coast and in Hawaii.

marketing plastic specialties

COMPOUNDING AND SPECIALTIES

SIGNS AND LEASING

Within Rexall's Plastics Group are a number of companies serving specialized markets with a variety of products.

Compounding and Specialties. Colorite Plastics, a manufacturer of garden hose, has completed its move to a 220,000 square-foot facility in Ridgefield, N. J., with manufacturing, warehousing and distribution all under one roof. New equipment has doubled production capacity for reinforced garden hose. **Uni-chem** now makes non-toxic polyvinyl chloride (PVC) compounds for use in packaging materials for pharmaceuticals and foods.

Action Plastics, Totowa, N. J., is a manufacturer of dip tubing for the aerosol industry and pen tubing used in both disposable ball point pens and more expensive writing instruments. Its dip tubing has found good acceptance among manufacturers of the newer aerosol cans which can operate from any position.

Joint operations in Belgium of Action and American Gasket & Rubber are now well under way, with good initial acceptance for both pen tubing and barrels and rubber gaskets.

American Gasket and Rubber, headquartered in Schiller Park, Ill., has opened a new plant in Clinton, Ill. which provides new manufacturing efficiencies and capacity. Nail head gaskets, one of the company's newer products, are being well received in the first full year on the market. These are rubber grommets used with roofing and siding nails to provide a better weatherproof seal.

Rex-Cut, Fall River, Mass., manufactures abrasive wheels and disks for both the do-it-yourself market and other manufacturers. For the "portable indoor tennis court," used in the U.S. Lawn Tennis Association's indoor tournament, Rex-Cut developed a process for combining the sections of the special rubber into the complete tennis court surface. These courts are now being marketed by a tennis equipment company.

Signs and Leasing. Plasti-Line, Knoxville, Tenn. and **Epcon,** Seattle, Washington, produce outdoor illuminating signs. Results at Plasti-Line were affected by a seven weeks strike in 1968. Increasing costs also impaired results. New marketing policies have been established aimed at broadening the company's customer base and are expected to contribute to improved results in 1969.

COLORITE
XL
GARDEN HOSE

Epcon overcame the handicaps of a lengthy industry-wide strike to finish 1968, its first full year as a Rexall company, with results close to those which it achieved in 1967. The company now provides a complete sign design, building, erection, maintenance and leasing service.

Garden hose from Colorite (above)

Plasti-Line sign park in Knoxville, Tenn. (below)

TRUCKS
Mobil
ZEPHYR
CASE

George J. Daly, *Executive Vice President, Finance and Administration and Treasurer. Mr. Daly directs activities of the Corporate Group, including financial, administrative and all management services.*

STATEMENT OF EARNINGS AND RETAINED EARNINGS

Rexall Drug and Chemical Company and its consolidated subsidiaries

	1968	1967 (restated)
INCOME:		
Sales and revenues, less returns, allowances and discounts	$642,227,000	$607,807,000
Other income	5,090,000	5,307,000
	647,317,000	613,114,000
COSTS AND EXPENSES:		
Cost of goods sold and operating expenses, excluding depreciation and amortization	371,341,000	357,428,000
Selling, distribution, promotional and administrative expenses	172,311,000	162,881,000
Depreciation and amortization	25,033,000	23,658,000
Interest on debt and discounted rental obligations under certain leases	6,678,000	7,142,000
Provision for United States, foreign and state taxes based upon income:		
Taxes payable currently	30,500,000	28,200,000
Tax effect of timing differences	4,700,000	(1,600,000)
	610,563,000	577,709,000
EARNINGS FOR THE YEAR BEFORE EXTRAORDINARY ITEMS	36,754,000	35,405,000
EXTRAORDINARY ITEMS:		
Gain on sale of subsidiary, $5,111,000, less applicable income tax of $2,456,000	2,655,000	
Provision for estimated losses in reorganizing certain divisions, $5,143,000, less current and future tax benefits of $2,782,000	(2,361,000)	
	294,000	
NET EARNINGS FOR THE YEAR	37,048,000	35,405,000
RETAINED EARNINGS AT THE BEGINNING OF THE YEAR	149,770,000	133,843,000
	186,818,000	169,248,000
DIVIDENDS:		
Cash—		
Rexall Drug and Chemical Company		
Preferred—$2 per share	5,655,000	5,334,000
Common—30c per share	4,341,000	3,929,000
Pooled companies, prior to merger or acquisition	920,000	1,842,000
Common Stock, 3%, 402,200 shares at $32.75 per share paid in March 1968 and 374,200 shares at $22.375 paid in February 1967	13,173,000	8,373,000
	24,089,000	19,478,000
RETAINED EARNINGS AT THE END OF THE YEAR	$162,729,000	$149,770,000
PER SHARE OF COMMON STOCK:		
Earnings before extraordinary items	$ 1.91	$ 1.84
Extraordinary items	.02	
Net earnings	$ 1.93	$ 1.84
Based on restated average shares outstanding during the year (No material dilution in earnings per share would result upon conversion of Preferred Stock, exercise of outstanding stock options and issuance of contingent shares.)		

See accompanying notes to financial statements.

STATEMENT OF FINANCIAL POSITION DECEMBER 31, 1968 AND 1967

	1968	1967 (restated)
CURRENT ASSETS:		
Cash and short term securities	$ 55,131,000	$ 36,381,000
Accounts and notes receivable	97,048,000	90,721,000
Inventories	115,167,000	115,554,000
Prepaid expenses	4,421,000	4,715,000
Deferred future income tax benefits	6,250,000	5,950,000
TOTAL CURRENT ASSETS	278,017,000	253,321,000
CURRENT LIABILITIES:		
Accounts payable	38,260,000	39,188,000
Short term loans, foreign	3,625,000	3,916,000
Accrued compensation and taxes thereon	18,369,000	15,425,000
Other accrued expenses	27,602,000	21,762,000
Current instalments of long term debt	2,085,000	2,102,000
Estimated United States and foreign income taxes	14,175,000	17,000,000
Current instalments of discounted rental obligations	777,000	703,000
TOTAL CURRENT LIABILITIES	104,893,000	100,096,000
WORKING CAPITAL	173,124,000	153,225,000
PROPERTIES, INVESTMENTS AND OTHER ASSETS:		
Properties owned	206,981,000	197,365,000
Properties leased from others	20,327,000	15,492,000
Investment in United States subsidiaries not consolidated, at cost less reserve	1,171,000	1,570,000
Other receivables, deposits and investments, less reserve	9,803,000	9,983,000
Intangibles	14,008,000	14,108,000
Deferred charges	3,141,000	3,185,000
	255,431,000	241,703,000
WORKING CAPITAL AND ALL OTHER ASSETS	428,555,000	394,928,000
DISCOUNTED RENTAL OBLIGATIONS UNDER CERTAIN LEASES, LESS CURRENT INSTALMENTS	21,447,000	16,329,000
LONG TERM DEBT AND OTHER DEFERRED LIABILITIES:		
Long term debt, less current instalments	82,375,000	84,702,000
Deferred United States and foreign income taxes	19,900,000	17,300,000
	102,275,000	102,002,000
TOTAL NET ASSETS REPRESENTING STOCKHOLDERS' EQUITY	$304,833,000	$276,597,000
STOCKHOLDERS' EQUITY:		
CAPITAL STOCK OF REXALL DRUG AND CHEMICAL COMPANY—		
Preferred	$ 14,921,000	$ 14,787,000
Common	20,293,000	19,568,000
CAPITAL IN EXCESS OF PAR VALUE	107,350,000	92,591,000
RETAINED EARNINGS	162,729,000	149,770,000
(Of the 1968 amount, $19,184,000 is reserved for a 3% Common Stock dividend of 487,200 shares payable March 10, 1969.)		
	305,293,000	276,716,000
Less cost of reacquired shares of capital stock; Preferred — 7,500 (acquired in 1968), Common — 5,413	460,000	119,000
TOTAL STOCKHOLDERS' EQUITY	$304,833,000	$276,597,000

See accompanying notes to financial statements.

STATEMENT OF CAPITAL STOCK

Rexall Drug and Chemical Company and its consolidated subsidiaries

	1968		1967 (restated)	
	Shares issued	Amount	Shares issued	Amount
PREFERRED, PAR VALUE $5.00 EACH				
Authorized, 3,000,000 shares				
Series A $2 Cumulative Convertible (aggregate liquidating preference in 1968 — $149,215,000)				
AT THE BEGINNING OF THE YEAR	2,957,400	$ 14,787,000	2,930,300	$ 14,651,000
Upon exercise of options	28,000	140,000	27,100	136,000
Upon conversion into Common Stock	(1,100)	(6,000)		
AT THE END OF THE YEAR, INCLUDING REACQUIRED SHARES	2,984,300	$ 14,921,000	2,957,400	$ 14,787,000
COMMON, PAR VALUE $1.25 EACH				
Authorized, 25,000,000 shares				
AT THE BEGINNING OF THE YEAR	15,654,000	$ 19,568,000	15,172,400	$ 18,966,000
For stock dividend	402,200	503,000	374,200	468,000
Upon exercise of options	176,900	221,000	107,400	134,000
Upon conversion of Preferred Stock	1,100	1,000		
AT THE END OF THE YEAR, INCLUDING REACQUIRED SHARES	16,234,200	$ 20,293,000	15,654,000	$ 19,568,000

STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

	1968	1967 (restated)
AT THE BEGINNING OF THE YEAR	$ 92,591,000	$ 83,228,000
Excess of fair value over par value of Common Stock issued as stock dividends	12,670,000	7,905,000
Costs and expenses of mergers	(525,000)	
Other credits, principally the excess of option prices over par value of stock options exercised	2,614,000	1,458,000
AT THE END OF THE YEAR	$107,350,000	$ 92,591,000

See accompanying notes to financial statements.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	1968	1967 (restated)
SOURCE:		
Net earnings for the year	$ 37,048,000	$ 35,405,000
Depreciation and amortization	25,033,000	23,658,000
Provision for deferred income taxes	2,600,000	1,558,000
CASH FLOW	64,681,000	60,621,000
Sale of properties and investments, excluding gain	2,027,000	2,732,000
Exercise of stock options	2,900,000	1,720,000
Discounted rental obligations under certain leases	5,118,000	1,168,000
TOTAL FUNDS PROVIDED	$ 74,726,000	$ 66,241,000
APPLICATION:		
Properties and other assets purchased	$ 35,097,000	$ 42,497,000
Properties leased from others	5,918,000	1,954,000
Cash dividends paid by Rexall—		
Preferred Stock	5,655,000	5,334,000
Common Stock	4,341,000	3,929,000
Cash dividends paid by pooled companies prior to merger or acquisition	920,000	1,842,000
Net reduction of long term debt	2,327,000	1,806,000
Working capital increase	19,899,000	8,762,000
Other, net	569,000	117,000
TOTAL FUNDS APPLIED	$ 74,726,000	$ 66,241,000

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Rexall Drug and Chemical Company and its consolidated subsidiaries

Details of Statement of Financial Position

	1968	1967 (restated)
Accounts and notes receivable:		
Trade, including subsidiaries not consolidated	$ 96,735,000	$ 88,792,000
Other	6,000,000	6,104,000
	102,735,000	94,896,000
Less reserve	5,687,000	4,175,000
	$ 97,048,000	$ 90,721,000
Inventories, at lower of cost (principally fifo or average) or market:		
Raw materials and supplies	$ 36,373,000	$ 33,749,000
Work in process	10,027,000	10,023,000
Finished merchandise	68,767,000	71,782,000
	$115,167,000	$115,554,000
Properties owned, at cost:		
Land	$ 6,356,000	$ 5,650,000
Buildings and building fixtures	82,797,000	78,375,000
Machinery and equipment	218,101,000	208,374,000
Store fixtures, leaseholds and improvements	8,585,000	8,439,000
Construction in progress	14,668,000	9,569,000
	330,507,000	310,407,000
Less accumulated depreciation, provided generally on a straight line basis	123,526,000	113,042,000
	$206,981,000	$197,365,000
Intangibles, at cost less amortization:		
Excess of investments in businesses purchased over net assets acquired	$ 12,208,000	$ 11,914,000
Patents, licenses and trademarks, etc.	1,800,000	2,194,000
	$ 14,008,000	$ 14,108,000
Long term debt, less current instalments:		
Unsecured notes, 4.042% to 5.75%, due in instalments to 1987	$ 78,509,000	$ 79,859,000
Real estate and other obligations	3,866,000	4,843,000
	$ 82,375,000	$ 84,702,000

Basis of Consolidation All significant subsidiaries are consolidated. Accounts of foreign subsidiaries are translated into United States dollar equivalents at appropriate yearend exchange rates except for property accounts and related items for which historical exchange rates are used.

A summary of assets and liabilities (excluding inter-company accounts) of foreign subsidiaries at December 31 follows:

	1968	1967 (restated)
Current assets	$ 48,755,000	$ 44,578,000
Current liabilities	20,335,000	17,471,000
Working capital	28,420,000	27,107,000
Properties and all other assets	40,004,000	39,991,000
Working capital and all other assets	68,424,000	67,098,000
Long term debt, less current instalments	6,521,000	7,959,000
Net assets of foreign subsidiaries in consolidation	$ 61,903,000	$ 59,139,000

Net sales from all operations outside the United States were $101,205,000 in 1968 and $96,334,000 in 1967. Undistributed earnings of foreign subsidiaries included in consolidation were $6,200,000 for 1968 and $3,530,000 for 1967 and aggregated $37,845,000 at December 31, 1968. Dividends of approximately $3,000,000 in 1968 and $3,600,000 in 1967 were received from foreign subsidiaries. Income taxes which may be incurred upon distribution of earnings of subsidiaries are provided when the distributions are made.

During 1968 mergers were consummated with Beauty Counselors, Inc. and with The West Bend Company. In addition, Rexall acquired the net assets of Aztec Chemicals, Inc. Completion of these mergers and the acquisition resulted in Rexall's issuance of 2,309,171 shares of newly issued Common Stock and 302,117 shares of newly issued Series A $2 Cumulative Convertible Preferred Stock. The acquisition agreement provides for the issuance of up to 75,000 additional shares of Common Stock contingent upon Aztec's defined net earnings for 1969. These mergers and the acquisition have been accounted for as poolings of interests and accordingly the accompanying consolidated statements include the accounts of all of these businesses as at December 31, 1968 and for the year then ended. Comparative 1967 amounts have been restated to include the accounts of these businesses. Certain other acquisitions were made for cash and the results of operations of such acquired businesses have been included in the accompanying consolidated financial statements from the dates of their acquisition.

Rexall is a 50% owner of a plastics processing corporation and a party to a joint operating agreement whereby it has an undivided 50% interest in plant and other assets relating to the production and marketing of certain petrochemicals. Consistent with prior years, the accompanying statements include 50% of the assets, liabilities, income and costs and expenses of these jointly owned activities.

Depreciation of property, plant and equipment has been provided on a consistent basis at various annual rates based on the estimated average useful life of the various classes or types of assets, applied chiefly on a straight line basis to gross asset amounts excluding fully depreciated assets. Declining balance and guideline depreciation generally are used in the determination of earnings for income tax purposes where applicable.

Properties Leased from Others In compliance with a pronouncement of the American Institute of Certified Public Accountants, Rexall has recorded as assets the cost of certain properties leased from others subsequent to 1964. The related discounted lease obligations are set forth separately in the accompanying statement of financial position. Rexall has no legal responsibility for payments under the terms of any of these leases except for rent, insurance, taxes and maintenance.

These lease obligations are payable $1,931,000 annually at December 31, 1968 over the period of the leases until 1970, increasing to $2,022,000 until 1976 then decreasing and continuing at lesser amounts thereafter to 1993. Rentals payable under other leases are shown in a separate Note.

Property Leased to Others A division of Rexall leases equipment to others. The portion of these leases which essentially represents financing of equipment for lessees is recorded as contracts receivable net of the unearned portion of related rental income. Rentals receivable under non-financing type leases are not recorded until payment is due. At December 31, 1968 unrecorded lease contracts receivable of the latter type amounted to $6,374,000.

Income Taxes Rexall makes provision for deferred income taxes and future income tax benefits applicable to all timing differences between book and tax income. The net amount of such provision and the accumulated balances at yearend are shown separately in the accompanying statements. Investment tax credits of $1,480,000 have been applied to reduce the 1968 tax provision. This compares with similar credits of $1,414,000 applied in 1967.

Long Term Debt Total principal payments due in the five years subsequent to December 31, 1968 on all long term debt are as follows: 1969 — $2,085,000; 1970 — $6,630,000; 1971 — $5,629,000; 1972 — $5,474,000; 1973 — $5,215,000. No contingent payments are required.

Under loan agreements with certain insurance companies $81,000,000 of the consolidated retained earnings of $162,729,000 at December 31, 1968 is not restricted as to payment of cash dividends. The agreements impose no restrictions on payment of stock dividends.

Preferred Stock Holders of the Series A $2 Cumulative Convertible Preferred Stock are entitled to receive $2 per share annual cash dividends, to one vote per share and, upon any voluntary or involuntary liquidation, dissolution or winding up to receive $50 per share plus accrued unpaid dividends. Each share of the Preferred Stock is convertible by the holder at any time into Common Stock on a share for share basis appropriately adjusted for stock dividends in excess of 3% or for recapitalization. The Preferred Stock may be called for redemption on and after June 30, 1971 at $55 per share plus accrued unpaid dividends. Also under certain restricted circumstances such stock may be redeemed in its entirety prior to June 30, 1971.

Stock Options 820,500 shares of Rexall Common Stock are reserved for purchase by officers and employees under a stockholder approved stock option plan. Options for 521,400 shares were exercised prior to 1968. A summary of changes during 1968 follows:

	Options outstanding	
	Shares	Amount
At beginning of year	658,500	$13,629,000
Adjustment for stock dividend	19,700	
Options granted	238,100	7,503,000
Options exercised	(111,400)	(1,732,000)
Options canceled	(39,400)	(1,059,000)
At end of year	765,500	$18,341,000

At December 31, 1968 options for 55,000 shares of Common Stock were available for granting.

21,700 shares of Series A $2 Cumulative Convertible Preferred Stock are reserved for options assumed in connection with a 1966 merger. There is no plan to issue any new Preferred Stock options. Options for 29,400 shares were exercised prior to 1968. A summary of changes during 1968 follows:

	Options outstanding	
	Shares	Amount
At beginning of year	37,900	$1,176,000
Options exercised	(15,800)	(265,000)
Options canceled	(400)	(16,000)
At end of year	21,700	$ 895,000

During 1968 prior to merger The West Bend Company issued the equivalent of 65,500 Rexall Common shares and 12,200 Rexall Preferred shares upon exercise of West Bend stock options. No West Bend options were outstanding at the date of merger.

Commitments and Contingencies Information concerning certain post 1964 leases is contained in a separate Note. Minimum annual lease rentals payable, including $6,470,000 related to transportation equipment, and sublease rentals receivable by Rexall under other leases and subleases in effect at December 31, 1968 are as follows:

	Minimum annual rentals	
	Payable	Receivable
Leases expiring in		
1969 — 1973	$ 9,651,000	$ 980,000
1974 — 1978	2,680,000	829,000
1979 — 1983	1,086,000	178,000
1984 — 1988	1,262,000	36,000
after 1988	311,000	23,000
	$14,990,000	$2,046,000

Some leases provide for rentals based upon a percentage of sales and many require additional payments for property taxes, insurance and maintenance. Some of the leases above entered into prior to 1965 contain purchase options. Provision has been made for estimated lease losses on properties no longer operated.

Certain lawsuits have been filed against Rexall. In the opinion of counsel, none of these suits is likely to result in significant liability.

Capital Expenditures It is estimated that capital expenditures for 1969 will be approximately $64,000,000.

Retirement Plans Rexall Drug and Chemical Company and certain of its United States subsidiaries continued the contributory profit sharing retirement plan established in 1955 covering salaried employees with one or more years of employment with Rexall. The aggregate Rexall contribution in any year, which is based upon consolidated income before Federal income taxes, is limited to six percent of the consolidated earnings as defined and cannot exceed the amount deductible for Federal income tax purposes. The computations include net earnings after income taxes of Thatcher and Ralph Wilson divisions whose employees do not participate in the Rexall plan, but who participate in previously existing retirement plans which Rexall continued in effect. The contribution to be made under the Rexall profit sharing retirement plan amounted to $1,924,000 for the year 1968.

Rexall and its subsidiaries have several pension plans covering substantially all of their employees, including certain employees in foreign countries. The total pension expense for the year was $2,900,000 which includes, as to certain of the plans, amortization of prior service cost over periods ranging from 20 to 40 years. Rexall's policy is, generally, to contribute the pension cost accrued for funded plans and to create accounting reserves for unfunded plans. The actuarially computed value of vested benefits for all plans exceeded as of December 31, 1968 the total of the pension funds and accruals less pension prepayments and deferred charges by approximately $5,500,000.

Incentive Compensation Under the formula incorporated in Rexall's 1962 stockholder approved Incentive Compensation Plan for principal officers and key employees, the Incentive Compensation Committee and the Executive Committee of the Board of Directors awarded to 66 principal officers and key employees $681,000 of the total of $2,590,000 available for 1968. Payment of $369,000 of the 1968 awards is deferred until future years in accordance with the provision of this plan.

Pursuant to stockholder authority granted in 1962, various other approved plans are in effect for divisions and subsidiaries of Rexall, and certain special awards have been authorized for employees not participating in any plan. The above named committees awarded $3,113,000 to 717 persons in these categories. The total amount available under the plans and inclusive of special awards was $4,448,000. No principal officers or directors participate in these plans or special awards.

Excess amounts available but not awarded under all plans are not available for future awards and have been included in 1968 consolidated earnings.

Earnings Per Share of Common Stock Per share data are based on the average number of Common shares outstanding during each year, adjusted retroactively for subsequent stock dividends, after pro forma provision for, or payment of, dividends on the Series A $2 Cumulative Convertible Preferred Stock amounting to $5,945,000 in 1968 and $5,914,000 in 1967.

Extraordinary Items The plastic bottle operations of Imco Container Company were sold to

Ethyl Corporation in July 1968 pursuant to a settlement agreement with the Federal Trade Commission relative to the 1966 merger of Thatcher Glass Manufacturing Company, Inc. into Rexall. The gain on sale of these operations was $2,655,000 after applicable income tax reduction of $2,456,000. The operations of Imco for the seven months ended July 31, 1968 are included in the consolidated statement of earnings. Net sales and net earnings so included were $8,092,000 and $521,000, respectively.

During 1968 Rexall adopted a program to reorganize the proprietary drug division to substantially lower the investment base and increase earnings, to consolidate the direct selling cosmetics divisions into one unified operation and to completely reorganize the operations of the Bonus Gifts division. Provision has been made for estimated losses and expenses incurred and to be incurred in connection with selling discontinued merchandise, closing certain warehouses, effecting personnel cutbacks and otherwise proceeding pursuant to the various plans of reorganization. The total estimated losses and expenses so provided for amounted to $2,361,000 after reduction for current and future tax benefits of $2,782,000.

Transactions After December 31, 1968 On February 28, 1969 Rexall and Commonwealth United Corporation agreed to the sale to Commonwealth of substantially all of Rexall's proprietary and retail drug businesses for cash and a new series of Commonwealth convertible preferred stock. The sale, which will result in a 1969 gain to Rexall, is based upon the January 31, 1969 net book value of assets less liabilities being sold but the actual closing will not occur until June 30, 1969. At December 31, 1968 the net book value of assets to be sold amounted to about $54,000,000. For the year 1968 sales of the units being sold approximated $135,000,000 and operating earnings before corporate allocations but after pro forma provision for taxes on income were about $1,600,000.

Rexall and The Glendinning Companies, Inc. each have become 50% owners of a newly-formed company which was organized to carry on and expand Rexall's Bonus Gifts operations.

OPINION OF INDEPENDENT ACCOUNTANTS

PRICE WATERHOUSE & CO.

To the Board of Directors and
Stockholders of Rexall Drug
and Chemical Company

In our opinion, the accompanying statements on pages 30 to 37 present fairly the financial position of Rexall Drug and Chemical Company and its consolidated subsidiaries at December 31, 1968 and the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Los Angeles
March 11, 1969

Price Waterhouse & Co.

TEN YEAR FINANCIAL REVIEW

Rexall Drug and Chemical Company and its consolidated subsidiaries

(Dollar amounts in thousands except per share data; stock information relates to Common Stock, unless otherwise indicated)

FOR THE YEAR	1968	1967†
Net sales	642,227	607,807
Income taxes	35,200	26,600
Net earnings before extraordinary items	36,754	35,405
Preferred dividend requirements*	5,945	5,914
Net earnings available to Common Stock after Preferred dividend requirements	31,103	29,491
Per share of Common Stock:		
Net earnings**	1.93	1.84
Cash dividends	.30	.30
Stock dividends	3%	3%
Cash dividends paid:		
Common Stock	4,341	3,929
Preferred Stock	5,655	5,334
Cash flow***	64,681	60,621
Cash flow per share	4.01	3.79

AT YEAR END		
Working capital	173,124	153,225
Properties owned (net)	206,981	197,365
Total assets	533,448	495,024
Long term debt	82,375	84,702
Deferred liabilities	19,900	17,300
Stockholders' equity	304,833	276,597
Shares of stock outstanding:		
Common	16,228,800	16,050,700
Preferred (pro forma prior to 1966)	2,976,800	2,957,400
Stockholders:		
Common	35,144	33,903
Preferred (pro forma prior to 1966)	5,947	5,204
Employees	27,786	27,699

†Amounts for 1963-1967 have been restated for acquisitions accounted for as poolings of interests in 1968

*Pro forma for years prior to issuance of stock in mergers.

**Includes $.02 in 1968 and $.12 in 1964 and is after reduction of $.13 in 1962, all applicable to extraordinary items.

1966†	1965†	1964†	1963†	1962	1961	1960	1959
561,806	526,773	446,654	401,424	334,909	320,328	304,898	276,879
19,756	28,420	22,027	19,658	11,434	11,844	11,082	11,038
30,635	37,396	27,968	19,704	9,219	12,397	12,006	11,394
5,859	5,897	5,466	5,393	4,707	4,415	4,342	4,307
24,776	31,499	24,347	14,311	2,862	7,982	7,664	7,087
1.56	1.99	1.63	.97	.23	.66	.66	.71
.30	.30	.26¼	.25	.25	.25	.25	.25
3%	3%	3%	3%	3%	3%	3%	3%
3,670	3,095	2,528	2,318	2,247	2,130	2,002	1,841
2,640							
54,707	56,185	44,609	36,395	21,706	23,231	20,890	17,086
3.45	3.56	2.99	2.47	1.76	1.92	1.81	1.72
144,463	141,662	133,293	124,128	96,257	80,878	83,514	71,090
181,616	164,927	122,043	104,501	84,783	81,776	58,463	51,773
456,025	418,934	355,331	317,356	261,308	245,257	207,420	175,789
88,188	89,255	81,607	84,276	74,554	64,590	50,996	40,931
15,742	12,640	11,112	10,777	6,452	4,525	2,020	833
250,569	230,231	187,957	162,735	129,214	123,796	111,551	94,397
15,865,100	15,882,100	14,930,300	14,730,500	12,321,100	12,193,300	11,793,000	9,977,700
2,930,300	2,961,400	2,734,300	2,699,700	2,353,600	2,214,400	2,188,400	2,153,800
32,370	26,769	23,262	22,217	21,948	21,079	20,287	19,151
4,691	4,770	4,450	4,878	5,207	5,019	3,935	3,838
28,346	25,488	20,889	19,400	16,862	15,759	15,535	15,355

***Net earnings, plus depreciation and amortization and provision for deferred income taxes.

Net earnings per share is based upon the average number of shares outstanding during each year. The shares of stock outstanding and net earnings per share of 1967 and prior years have been adjusted retroactively to give effect to subsequent stock dividends and the 2 for 1 stock split in December 1964.

Operating Officers of

REXALL DRUG AND CHEMICAL COMPANY

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  Convenience Packaging

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Home Furnishings Division
Syroco
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  Decorative Accessories, Tables
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BAFFIN BAY
GREENLAND
CANADA
NORTH
AMERICA
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Arctic Circle
Davis Strait

CHEMICAL GROUP

Rexall Chemical Company

Materials

- Polyethylene
- Polypropylene

(Joint Venture with El Paso Products Co.)

- Polystyrene
- ABS

Consolidated Thermoplastics Co.
(Jointly owned with El Paso Products Co.)

- Packaging Film

Specialty Products

- Aztec Chemicals
  - Organic Peroxides
- Fiberfil
  - Fiber Reinforced Thermoplastics
- PureChem
  - Titanium Trioxide
- Wilson Products
  - Color Concentrates

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PLASTICS GROUP

Architectural

- Ralph Wilson Plastics
  - Decorative Laminates
  - Laminated Art
- Panel Products
  - Vinyl Clad Wall and Furniture Board
- Fabrovin
  - Vinyl Wall Coverings

Design Coordinated Products

Packaging

- Thatcher Plastics Packaging
  - Tubes, Closures, Seals
- Imco
- Rexpak
- BEPSA
- Litoplas

Plastic Bottles *Europe, Australia*

- White Metal
  - Metal Tubes

Signs and Leasing

- Plasti-Line
  - National Trademark Signs
- Epcon
  - Custom Signs and Leasing, Sign Facings and Components

Specialties & Compounding

- American Gasket & Rubber
  - Aerosol Gaskets
- Colorite Plastics
  - Garden Hose, Compounding
- Action Plastics
  - Extruded Specialties
- Rex-Cut Products
  - Abrasives

Styrene Products

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Styrene Containers

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- Design Center
- Financial Analysis and Review
- Internal Audit
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State Street Bank and Trust Company, Boston
Bank of America National Trust and Savings Association, Los Angeles

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The Chase Manhattan Bank, New York
The National Shawmut Bank of Boston, Boston
United California Bank, Los Angeles

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.

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